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From: Lynda Chalker

Date: 21 August 1990

Secretary of State

TURKEY: AID AND TRADE PROVISION: ANKARA METRO

A

I am consulting you at this time over this project largely because of the implications our decision may have for our relations with both the Turks and the Canadians. You will have a copy of Tim Sainsbury's letter of today's date. This explains the pressures.

The proposal that has been before us for some time is to construct a metro, at an estimated cost of £374.6m, for part of Ankara. The principal contractor would be Canadian and Hawker Siddeley, and other British firms, would work in support of the Canadians in the provision of equipment worth around £54m. Hawker Siddeley have submitted an application for £18.76m from ATP funds in support of their bid.

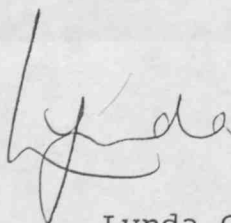
We have made it clear from the outset - in 1988 - that although we were prepared to consider the project we would first need to be sure that it was sound in economic and financial terms. We have looked carefully at the economic and financial aspects on more than one occasion, and the conclusion reached from the most recent assessment (which we undertook in company with the Canadians) was that the economic rate of return would be between 4 - 7%, excluding any unquantified environmental and town planning benefits. On the financial side it is just as unattractive for the estimates suggest that subsidies either from Ankara Municipality or the Turkish Government will be needed to the tune of \$100 - 150m a year over the first few years.

B

In the normal way I would have no difficulty in rejecting the proposal as inappropriate for funding from the aid programme. You should however be aware of the political dimensions. There is strong Canadian Government interest in the project (Mr Mulrooney is said to be taking a personal interest) and Joe Clark has now written to you. At the same time our Embassy in Ankara had earlier reported that there is no serious reason to doubt the Turkish Government's commitment to the project although it has to be uncertain how far this position has been maintained in the wake of the Middle East crisis and the assessment of the likely costs falling on Turkey of compliance with United Nations sanctions.

In commercial terms the justification repeatedly stressed by Hawker Siddeley, Lavalin (the Canadian contractors) and Donald MacDonald is that lack of ATP support for this project will jeopardise the prospects of any future collaboration between the 2 firms. (Currently Hawker Siddeley hope to be associated with Lavalin on potential metro projects in Bangkok and Toronto; both are considerably larger in financial terms.) Our Embassy has also drawn attention to other commercial and political considerations in Turkey. British Airports Services have just withdrawn from the Bodrum Airport Project after several months of apparently total commitment to it and in a manner which has caused offence right up to the President. The DTI and Embassy consider that if ATP support is turned down for the Ankara Metro Project, at what the Turks regard as a very late stage, it could well damage UK prospects on other large public sector contracts. The Diplomatic Wing point out that it would also send a further negative signal to the Turks and feed their suspicions that they are tending to be neglected by Britain, particularly important in view of the present role of Turkey in the Gulf crisis.

This is clearly a very difficult case. I take the political and commercial arguments. But I cannot believe that if we decline to participate this will do serious damage to our relations with the Canadians and I consider the same to apply to the Turks who will be more concerned about solidarity on the management of the Gulf crisis and with attracting investments to offset the economic damage. Having thought about this most carefully I conclude that on balance this is not a project that it is economically sensible for the Turks to undertake and that we should decline to offer support.



Lynda Chalker

As Tim has copied this minute to Charles Powell, I have taken the chance to let him see a copy of this too.